

Applications : A.13-09-016  
Exhibit Number : DRA-01  
Commissioner : Carla Peterman  
ALJ : W. Anthony Colbert  
Witness : Francis Fok



## **OFFICE OF RATEPAYER ADVOCATES**

**CALIFORNIA PUBLIC UTILITIES COMMISSION**

# **Report on the Results of Examination for Southern California Edison Catastrophic Event Memorandum Account - 2009 Firestorms and 2010 Rainstorms**

San Francisco, California  
July 14, 2014

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## **MEMORANDUM**

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This report was prepared by the Office of the Ratepayer Advocates' Energy  
Cost of Service and Natural Gas Branch in connection with Southern California  
Edison's Application 13-09-016, the CEMA 2009 Firestorms and 2010 Rainstorms.  
Francis W. S. Fok, Public Utility Financial Examiner IV, was the examiner.

1       **I. RECOMMENDATIONS**

2           ORA recommends that \$42 thousand in capital additions be deducted from  
3       SCE's request, as identified in this report. This recommendation is fair and reasonable  
4       in accordance with existing rules and policies of the Commission.

5       **II. INTRODUCTION**

6           In September 2013, Southern California Edison Company (SCE) filed Application  
7       13-09-016 for authorization to recover costs related to the 2009 Station and Morris  
8       wildfires (2009 Firestorms) and January 2010 and December 2010 Rainstorms (2010  
9       Rainstorms) recorded in the Catastrophic Events Memorandum Account (CEMA).

10          In Resolution E-3238, the Commission authorized utilities to establish a CEMA to  
11       record costs associated with: (1) restoring utility service to its customers; (2) repairing,  
12       replacing, or restoring damaged utility facilities; and (3) complying with governmental  
13       agency orders from declared disasters. Before including any costs in its Firestorm and  
14       Rainstorms CEMA, SCE was to ensure that the costs were (1) incremental; (2)  
15       documented to be firestorm and rainstorm-related; and (3) reasonable.

16       **A. SCE'S PROPOSAL**

17          Specifically, SCE requests the Commission to:

18           (1) Find reasonable the \$41.707 million of incremental capital expenditures  
19       (which amount to \$30.845 million of direct capital plant additions) used as the basis for  
20       the revenue requirement recorded in SCE's 2009 Firestorms CEMA and 2010  
21       Rainstorms CEMA capital costs subaccounts;

22           (2) Authorize SCE to transfer the recorded balances in the 2009 CEMA and the  
23       January 2010 CEMA capital costs subaccounts, including interest, currently estimated  
24       to be \$2.9 million and \$1.6 million respectively, to the distribution sub-account of the  
25       Base Revenue Requirement Balancing Account (BRRBA) for recovery in distribution  
26       rates, upon the effective date of a final Commission decision in this proceeding; and

1 (3) Authorize SCE to continue to record the monthly capital-related revenue  
2 requirement in the December 2010 Rainstorms CEMA capital cost subaccount and  
3 transfer its recorded balance, including interest, currently estimated to be \$2.2 million, to  
4 the distribution sub-account of the BRRBA for recovery in distribution rates, upon the  
5 latter of the effective date of a final decision in this proceeding or in Phase I of SCE's  
6 2015 GRC proceeding.<sup>1</sup>

7 In the Scoping Memo to this proceeding, four issues were identified as follows:

- 8 1. Is the ORA's proposed audit of SCE activities surrounding the 2009 firestorms  
9 and 2010 Rainstorms CEMA warranted, absent a genuine dispute of material  
10 fact or basis in law?
- 11 2. Did SCE follow CEMA protocol and make reasonable and prudent decisions  
12 based on the best information available?
- 13 3. Is SCE's accounting an accurate and truthful reflection of costs that were  
14 specifically associated with a corresponding disaster declaration?
- 15 4. Given the entirety of SCE's actions, should the Commission authorize the  
16 transfer of each CEMA balance to its BRRBA subaccounts?<sup>2</sup>

17 ORA observed the following during its' examination:

- 18 1. ORA believes that each application needs to be analyzed and examined to  
19 verify its' merits. ORA's examination generally found that SCE's request was  
20 supported.
- 21 2. ORA's examination found that, with one exception, SCE followed CEMA  
22 protocol and made reasonable and prudent decisions based on the best  
23 information available.
- 24 3. ORA's examination found that, with one exception, SCE's accounting was an  
25 accurate reflection of costs that were specifically associated with a

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<sup>1</sup> SCE Application 13-09-016, Page 2

<sup>2</sup> Scoping Memo and Ruling of Assigned Commissioner, A.13-09-016, Page 5

1 corresponding disaster declaration. All the random samples ORA selected for  
2 testing were traced through to the supports without exception.

- 3 4. ORA concluded that for this application the Commission can authorize the  
4 transfer of each CEMA balance to SCE's BRRBA subaccounts, after the  
5 appropriate \$42 thousand adjustment described in section V.

### 6 III. EXAMINATION SCOPE

7 ORA's examination focused on the period the calendar years of 2009 and 2010  
8 which the catastrophic firestorm and rainstorms took place. ORA also reviewed related  
9 costs and expenses in the years 2009 through 2010 for analytical studies. ORA's  
10 examination emphasized verification of SCE's documented support for the storm-related  
11 costs and expenses that were booked to the CEMA accounts and evaluated whether  
12 the costs and expenses were (1) incremental; and (2) reasonable.

13 ORA reviewed incident reports from the USDA indicating that the Station and  
14 Morris fires were caused by arson. ORA has sought that official notice be taken of  
15 these reports in a filing dated June 27, 2014.

16 ORA reviewed SCE's accounting of various CEMA cost elements including labor  
17 charges, contractor bills, mutual assistance costs, capital additions, and plant  
18 retirement. ORA also interviewed SCE witnesses. ORA sought to verify whether SCE  
19 had insurance policies to cover losses from the firestorms and whether SCE had  
20 recovered any reimbursement from the insurance companies.

21 The following areas were also included in ORA's examination:

- 22 a) Monthly and annual reports of operations  
23 b) General Ledger

### 24 IV. KEY ISSUES

#### 25 DEFINITION OF CEMA COSTS

26 CEMA expenses must fall within the definition of "incremental costs." The term  
27 "incremental costs" applies to both capital and O&M costs incurred by SCE as a result

1 of (and due solely to) the rainstorms and firestorms. Costs (capital expenditures and  
2 O&M expenses) that would not have been incurred 'but for' the storms are considered  
3 incremental. In other words, the incremental costs identified in this filing are those costs  
4 caused by the storms that are not part of SCE's normal business operations and are  
5 therefore not funded through existing rates.

## 6 V. EXAMINATION FINDINGS

7 ORA sought to ensure that CEMA costs occurred in counties that were subject to  
8 declared disasters. As part of ORA's examination, one adjustment was found. In  
9 SCE's response to ORA's Data Request 005 dated 6/27/2014, which asked "whether  
10 SCE has sought any recovery in this Application for costs incurred prior to the disaster  
11 declarations," SCE responded:

12 "Upon further review of the January 2010 Rainstorms costs, SCE discovered  
13 an error. SCE realized that the costs incurred prior to the January 2010  
14 Rainstorms' Emergency Proclamation actually belong to a storm work order,  
15 not directly related to the declared storms ("non-CEMA order"). Total  
16 charges related to the non-CEMA order are \$42 thousand which should have  
17 been excluded from SCE's request of \$30.845 million in direct capital plant  
18 additions."<sup>3</sup>

19 Therefore, ORA recommends that \$42 thousand be deducted from SCE's request  
20 for direct capital plant additions.

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<sup>3</sup> SCE 2009 Firestorm and 2010 Rainstorms CEMA A.13-09-016 SCE Response to ORA Data Request 005 Question 2, dated 6/27/2014.